

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC APPLICATION OF CALDWELL	)	CASE NO.
COUNTY WATER DISTRICT FOR AN	)	2021-00423
ALTERNATIVE RATE ADJUSTMENT	)	

NOTICE OF FILING OF COMMISSION STAFF REPORT

Notice is hereby given that, in accordance with the Commission's Order of March 21, 2022, the attached report containing the recommendations of Commission Staff regarding the Applicant's proposed rate adjustment has been filed in the record of the above-styled proceeding. Pursuant to the Commission's November 30, 2021, Order, Caldwell County Water District (Caldwell District) is required to file written comments regarding the findings of Commission Staff no later than 14 days from the date of this report. The Commission directs Caldwell District to the Commission's July 22, 2021 Order in Case No. 2020-00085<sup>1</sup> regarding filings with the Commission.

  
Linda C. Bridwell, PE  
Executive Director  
Public Service Commission  
P.O. Box 615  
Frankfort, KY 40602

DATED MAR 18 2022

cc: Parties of Record

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<sup>1</sup> Case No. 2020-00085, *Electronic Emergency Docket Related to the Novel Coronavirus COVID-19* (Ky. PSC July 22, 2021), Order (in which the Commission ordered that for case filings made on and after March 16, 2020, filers are NOT required to file the original physical copies of the filings required by 807 KAR 5:001, Section 8).

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COMMISSION STAFF'S REPORT ON  
CALDWELL COUNTY WATER DISTRICT

Caldwell County Water District (Caldwell District) is a water utility organized pursuant to KRS Chapter 74 that owns and operates a water distribution system through which it provides retail water service to approximately 2,079 residential customers and 6 commercial customers that reside in Caldwell County, Kentucky.<sup>1</sup> On November 15, 2021, Caldwell District filed an application with the Commission requesting to adjust its water rates pursuant to 807 KAR 5:076. The application was filed pursuant to the Commission's Order in Case No. 2019-00444.<sup>2</sup> Caldwell District's last base rate increase was Case No. 2016-00054.<sup>3</sup> To ensure the orderly review of the application, the Commission established a procedural schedule by Order dated November 30, 2021. Commission Staff issued its first round of formal discovery (Staff's First Request) and, on the Commission's own motion, amended the November 30, 2021, procedural schedule

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<sup>1</sup> *Annual Report of Caldwell District to the Public Service Commission for the Calendar Year Ended December 31, 2020* (Annual Report) at 12 and 49.

<sup>2</sup> Case No. 2019-00444, *Electronic Proposed Adjustment of the Wholesale Water Service Rates of Princeton Water and Wastewater* (Ky. PSC Jun. 15, 2020) at 41, ordering paragraph 5.

<sup>3</sup> Case No. 2016-00054, *Application of Caldwell County Water District for Rate Adjustment Pursuant to 807 KAR 5:0076* (Ky. PSC Dec 2, 2016).

on January 10, 2022 to provide Caldwell District with sufficient time to prepare and file its response to Staff's First Request. Caldwell District filed its response to Staff's First Request on January 28, 2022. Staff issued its second round of formal discovery (Staff's Second Request) on February 11, 2022; and Caldwell District filed its response on February 27, 2022.

The Commission notes that in its 2020 Annual Report, Caldwell District reported a water loss of 14.88 percent.<sup>4</sup> Commission regulation 807 KAR 5:066(6)(3) states that for ratemaking purposes a utility's water loss shall not exceed 15 percent of total water produced and purchased, excluding water consumed by a utility in its own operations. At a 14.88 percent water loss, the annual cost to Caldwell District is \$49,395<sup>5</sup>.

To comply with the requirements of 807 KAR 5:076, Section 9,<sup>6</sup> Caldwell District used the calendar year ended December 31, 2020, as the basis for its application. Using its pro forma test-year operations, Caldwell District determined that a revenue increase of \$117,094, or 8.79 percent over test-year normalized revenues of \$1,461,264, was

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<sup>4</sup> Annual Report at 57.

<sup>5</sup>

	Purchased Water	Purchased Power
Pro Forma Expenses	\$ 344,801	\$ 12,773
Times: Total Water loss	14.88%	14.88%
 Total Water Loss	 \$ (51,295)	 \$ 1,900
 Total		 <u>\$ (49,395)</u>

<sup>6</sup> The reasonableness of the proposed rates shall be determined using a 12-month historical test period, adjusted for known and measureable changes, that coincides with the reporting period of the applicant's annual report for the immediate past year.

warranted<sup>7</sup> as shown in the table below. The rates requested by Caldwell District would increase the residential monthly bill of a typical residential customer using 3,277 gallons per month by \$4.90 from \$55.75 to \$60.65, or approximately 8.79 percent.<sup>8</sup>

	<u>Caldwell County Water District</u>
Pro Forma Operating Expenses	\$ 1,197,596
Plus: Avg. Annual Principal and Interest Payments	219,723
Additional Working Capital	<u>43,945</u>
Total Revenues Requirement	1,461,264
Less: Other Operating Revenue	(11,584)
Interest Income	<u>(1,188)</u>
Revenue Required From Water Sales	1,448,492
Revenue from Sales at Present Rates	<u>(1,331,398)</u>
Required Revenue Increase	<u>117,094</u>
Percentage Increase	<u><u>8.79%</u></u>

To determine the reasonableness of the rates requested by Caldwell District, Commission Staff performed a limited financial review of Caldwell District's test-year operations. The scope of Commission Staff's review was limited to determining whether operations reported for the test year were representative of normal operations. Known and measurable<sup>9</sup> changes to test-year operations were identified and adjustments made

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<sup>7</sup> Application, ARF-Revenue Requirements.pdf.

<sup>8</sup> Application, Customer\_Notice\_of\_Proposed\_Rates.pdf.

<sup>9</sup> Commission regulation 807 KAR 5:076, Section 9 sets the standard for the determination of the reasonableness of proposed rates and states, in pertinent part, that the test period shall be "adjusted for known and measurable changes." See also Case No. 2001-00211, *Application of Hardin County Water District No. 1 for (1) Issuance of Certificate of Public Convenience and Necessity; (2) Authorization to Borrow Funds and to Issue its Evidence of Indebtedness Therefor; (3) Authority to Adjust Rates; and (4) Approval to Revise and Adjust Tariff* (Ky. PSC Mar. 1, 2002); Case No. 2002-00105, *Application of Northern Kentucky Water District for (A) an Adjustment of Rates; (B) a Certificate of Public Convenience and*

when their effects were deemed material. Insignificant and immaterial discrepancies were not necessarily pursued or addressed.

Commission Staff's findings are summarized in this report. William Foley reviewed the calculation of Caldwell District's Overall Revenue Requirement. Jason Green and Sarah Jankowski reviewed Caldwell District's reported revenues and rate design.

### SUMMARY OF FINDINGS

1. Overall Revenue Requirement and Required Revenue Increase. By applying the Debt Service Coverage (DSC) method, as generally accepted by the Commission, Commission Staff found that Caldwell District's required revenue from water sales is \$1,537,612 to meet the Overall Revenue Requirement of \$1,566,915 and that a \$215,034 revenue increase, or 16.26 percent, to pro forma present rate revenues is necessary to generate the Overall Revenue Requirement.

2. Monthly Water Service Rates. Based upon the revenue requirement, Caldwell District proposed to increase all of its monthly retail water service rates evenly across the board. Caldwell District did not perform a cost of service study (COSS). Caldwell District stated that it did not complete a COSS at this time, as there has not been any material change in the water system to warrant a COSS.<sup>10</sup>

The Commission has previously found that the allocation of a revenue adjustment evenly across the board to a utility's rate design is appropriate when there has been no

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*Necessity for Improvements to Water Facilities if Necessary; and (C) Issuance of Bonds* (Ky. PSC June 25, 2003); Case No. 2017-00417, *Electronic Proposed Adjustment of the Wholesale Water Service Rates of Lebanon Water Works* (Ky. PSC July 12, 2018).

<sup>10</sup> Caldwell County District's Response to Commission Staff's First Request for Information (filed Jan. 28, 2022) (Response to Staff's First Request), Item 14.b.

evidence entered into the record demonstrating that this method is unreasonable and in the absence of a COSS. Finding no such evidence in this case, Commission Staff followed the method proposed by Caldwell District and allocated the \$215,034 revenue increase across the board to Caldwell District's monthly retail water service rates.

The rates set forth in the Appendix to this report are based upon the revenue requirement, as calculated by Commission Staff, and will produce sufficient revenues from water sales to recover the \$1,537,612 Revenue Required from Water Sales, an approximate 16.26 percent increase. These rates will increase a typical residential customer's monthly water bill from \$55.75 to \$64.80, an increase of \$9.05, or approximately 16.23 percent.<sup>11</sup>

3. Nonrecurring Charges. Following the Commission's recent decisions,<sup>12</sup> Commission Staff has reviewed Caldwell District's Nonrecurring Charges. The Commission found that because district personnel are currently paid during normal business hours, estimated labor costs previously included in determining the amount of Nonrecurring Charges should be eliminated from the charges. Caldwell District provided the cost justification for the nonrecurring charges.<sup>13</sup> Commission Staff reviewed the cost justification information provided by Caldwell District and have adjusted these charges by

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<sup>11</sup> The typical residential customer uses approximately 3,277 gallons per month.

<sup>12</sup> Case No. 2020-00141, *Electronic Application of Hyden-Leslie County Water District for an Alternative Rate Adjustment* (Ky. PSC Nov. 6, 2020), Case No. 2020-00167, *Electronic Application of Ohio County Water District for an Alternative Rate Adjustment* (Ky. PSC Dec. 3, 2020), Case No. 2020-00196, *Electronic Application of West Daviess County Water District for an Alternative Rate Adjustment* (Ky. PSC Dec. 30, 2020), and Case No. 2020-00195, *Electronic Application of Southeast Daviess County Water District for an Alternative Rate Adjustment* (Ky. PSC Dec. 30, 2020).

<sup>13</sup> Caldwell District's Response to Commission Staff's First Request (filed Jan 28, 2022), item 7.

removing Field Labor Costs and Office/Clerical Labor Costs. Such adjustments result in the following revised Nonrecurring Charges:

<u>Nonrecurring Charge</u>	<u>Current Charge</u>	<u>Revised Charge</u>
Field Collection Charge	\$30	\$20
Connection/Turn-On Charge	\$30	\$20
Meter Re-Read Charge	\$30	\$20
Meter Read Charge	\$30	\$20
Service Call/Investigation	\$30	\$20
Re-Connection Charge	\$30	\$20

The adjustments to the Nonrecurring Charges results in a decrease in Other Operating Revenue of \$1,490 as shown below.

<u>Charges</u>	<u>Number of Occurrences</u>	<u>Utility Pro Forma</u>	<u>Adjustment</u>	<u>Staff Pro Forma</u>
Connection/ Turn-on Charge	132	\$ 3,960	\$ (1,320)	\$ 2,640
Credit/Debit Card	4,449	5,711	-	5,711
Re-connection Charge	17	510	(170)	340
Returned Check Charge	12	300	-	300
Totals		<u>\$ 10,481</u>	<u>\$ (1,490)</u>	<u>\$ 8,991</u>

#### PRO FORMA OPERATING STATEMENT

Caldwell District's Pro Forma Operating Statement for the test year ended December 31, 2020, as determined by Commission Staff, appears below.

	Test Year	Adjustment	(Ref.)	Pro Forma
<b>Operating Revenues</b>				
Total Metered Water Sales	\$ 1,331,398	\$ (8,820)	(A)	\$ 1,322,578
Other Water Revenues	11,584	18,021	(B)	
		(1,490)	(C)	28,115
<b>Total Operating Revenues</b>	<b>1,342,982</b>	<b>7,711</b>		<b>1,350,693</b>
<b>Operating Expenses</b>				
Operation and Maintenance Expenses				
Salaries and Wages - Employees	209,869	80,976	(D)	290,845
Salaries and Wages - Officers	8,277	99	(E)	8,376
Employee Pensions and Benefits	67,717	82,328	(F)	
		(24,826)	(G)	125,219
Purchased Water	335,148	9,653	(H)	344,801
Chemicals	2,698			2,698
Materials and Supplies	33,747			33,747
Contractual Services	112,492			112,492
Water Testing	5,253			5,253
Transportation Expenses	8,341			8,341
Insurance	19,814			19,814
Bad Debt Expense	(120)			(120)
Miscellaneous Expense	92,578	(16,347)	(I)	76,231
<b>Total Operation and Maintenance Expenses</b>	<b>895,814</b>	<b>131,884</b>		<b>1,027,698</b>
Depreciation	234,537	37,901	(J)	272,438
Taxes Other Than Income	-	22,542	(I)	22,542
<b>Utility Operating Expenses</b>	<b>1,130,351</b>	<b>192,326</b>		<b>1,322,677</b>
<b>Net Operating Income</b>	<b>212,631</b>	<b>(184,615)</b>		<b>28,016</b>
Interest and Dividend Income	1,188			1,188
<b>Income Available to Service Debt</b>	<b>\$ 213,819</b>	<b>\$ (184,615)</b>		<b>\$ 29,204</b>

(A) Billing Analysis. Caldwell District provided a billing analysis listing the water usage and water sales revenue for the 12-month test year in its application. In the 2020 Annual Report, total metered water sales revenue reported for the test year is \$1,342,982.<sup>14</sup> This amount includes other water revenues of \$11,584; therefore, total

<sup>14</sup> Annual Report at 49, Total Metered Sales \$1,342,982.

metered sales revenue is \$1,331,398. Caldwell District provided a billing analysis to calculate a normalized revenue amount based on the usage during the test year using the rates authorized in its current tariff to be 1,322,578. Subsequently, Commission Staff decreased test-year water sales revenue by \$8,820 to reflect the revenues from water rates generated by the billing analysis

(B) Late Payment Fees. During the test year Caldwell District reported \$4,898 in late payment penalties.<sup>15</sup> In March 2020, the Commission issued a Moratorium regarding the collection of late payment fees due to the pandemic.<sup>16</sup> Therefore, the amount collected does not represent a normal operating year amount. In order to remedy this, Caldwell District provided 2018 and 2019’s late payment penalties collected,<sup>17</sup> in addition to 2017’s late payment penalties collected.<sup>18</sup> Commission Staff recalculated the late payment penalties to closer align with a normal year by averaging the past three years as shown below. As a result, Commission Staff increased Other Water Revenues by \$18,021 to \$22,919.

<u>Year</u>	<u>Late Payment Penalties</u>
2017	\$24,174
2018	23,250
2019	21,335
Average Collected	22,919
Test Year Late Fees	<u>(4,898)</u>
Late Payment Penalties Adjustment	<u><u>\$18,021</u></u>

<sup>15</sup> Caldwell District’s Response to Commission Staff’s First Request (filed Jan 28, 2022), item 5.

<sup>16</sup> Case 2020-00085, *Emergency Docket Related to the Novel Coronavirus COVID-19*, (Ky. PSC Mar, 16, 2020), at 3.

<sup>17</sup> Caldwell District’s Response to Commission Staff’s Second Request (filed Feb 27, 2022), item 3.

<sup>18</sup> Caldwell District’s Supplement to Second Data Request (filed Mar 4, 2022).

(C) Non-Recurring Charges. As shown above, the adjustments to the Nonrecurring Charges results in a decrease in Other Water Revenue of \$1,490.

(D) Salaries and Wages- Employees. In its application, Caldwell District proposed an adjustment increasing Salaries and Wages-Employees Expense by \$35,360.<sup>19</sup> The adjustment was proposed to account for increases in the number of full time employees subsequent to the test year. Caldwell District provided the total number of hours worked during and subsequent to the test year, job responsibilities and salaries.<sup>20</sup> Caldwell District moved one employee from part time to full time, hired two additional full time employees, and hired one additional part time employee. Commission Staff used the information to calculate Salaries and Wages-Employees expense as \$290,845. Therefore, Commission Staff made an increase to Salaries and Wages-Employees of \$80,976 as shown below.

Employee Number	Employee Position	Total Hours	Test Year Normal Hours	Current Wages Rates	Pro Forma Normal Wages	Test Year Overtime Hours	Current Overtime Wage Rates	Pro Forma Overtime Wages	Total Pro Forma Wages	
10	CEO	Salary		\$ 80,000	Salary				\$ 80,000	
9	Office Manager	2,016	2,012	18.45	37,121	4	27.68	111	37,232	
12	Customer Service Representative	2,080	2,080	16.00	33,280	-	24.00		33,280	
1	Maintenance Operator	2,080	2,080	24.00	49,920	-	36.00		49,920	
2	Distribution Operator	2,080	2,080	18.00	37,440	-	27.00		37,440	
17	Distribution Operator	2,080	2,080	17.00	35,360	-	25.50		35,360	
4	Part Time Employee	1,164	1,164	15.00	17,460	-	22.50		17,460	
7	Part Time Employee	4	4	12.00	48	-	18.00		48	
16	Part Time Employee	7	7	15.00	105	-	22.50		105	
									Pro Forma Wages	\$ 290,845
									Less: Test Year Wages	(209,869)
									Pro Forma Adjustment	\$ 80,976

(E) Salaries and Wages- Officers. In its test year, Caldwell District reported Salaries and Wages- Officers expense of \$8,277.<sup>21</sup> Caldwell District currently has five

<sup>19</sup> Application, ARF-SAO.pdf, Adjustment 1.

<sup>20</sup> Caldwell District's Response to Commission Staff's First Request, (filed Jan 28, 2022), Item, Item 1f and 1g.

<sup>21</sup> Application, ARF-SAO.pdf,

board members. The chairman of the Board is currently paid \$6,000 per year and all other board members are paid \$594 per year.<sup>22</sup> Commission Staff agrees with Caldwell District’s methodology to calculating officer’s salaries, however, disagrees with the amount calculated. Therefore, Commission Staff increased Salaries and Wages- Officers expense by \$99 as shown in the table below and verified with the general ledger.

<u>Commissioners</u>	<u>Pro Forma Salaries</u>
Patricia Fralick	\$ 6,000
Randall Long	594
Chris Noel	594
Allison Oliver	594
Ty Harper	<u>594</u>
Total	\$ 8,376
Less: Test Year Salaries	<u>(8,277)</u>
Officer's Salaries Adjustment	<u><u>\$ 99</u></u>

(F) Employee Pensions and Benefits. Caldwell District provides pension benefits and postretirement health care benefits to its employees by participating in the County Employee Retirement System (CERS). As a participating member, Caldwell District is required to contribute a percentage of its employee wages to CERS. In the fiscal year beginning July 1, 2021, the CERS contribution rate was 26.95 percent.<sup>23</sup> The CERS pension expense Caldwell District reported in the test year conformed to the

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<sup>22</sup> Caldwell District’s Response to Commission Staff’s First Request, (filed Jan 28, 2022), Item 1j.

<sup>23</sup> Kentucky Retirement Systems, Contribution Rates. (<https://kyret.ky.gov/Employers/Pages/Contribution-Rates.aspx>)

requirements of the Governmental Accounting Standards Board Statement No. 68 (GASB 68).

In its Application, Caldwell District proposed to increase its Employee Pensions and Benefits Expense by \$22,634 to reflect the increase in employer contribution rates paid to CERS as well as an increase in the number of full time employees.

In Case No. 2016-00163,<sup>24</sup> Commission Staff discussed in great detail how reporting requirements for GASB 68 would affect a utility’s income statement and balance sheet. In that proceeding, Commission Staff found that the annual pension expense should be equal to the amount of a district’s contributions to CERS, which “historically have been fairly constant.” Therefore, Commission Staff increased Employee Pensions and Benefits Expense by a net amount of \$82,328.

Employee Pensions and Benefits	
Pro Forma Salaries and Wages- Employees	\$ 290,845
Multiplied by: Employer Contribution Rate Fiscal Year 2022	26.95%
Pro Forma CERS- Employer Contribution	78,383
Less: Test Year CERS Contribution	3,945
Employee Pensions and Benefits Adjustment	\$ 82,328

(G) Employee Pensions and Benefits- Insurance Premiums. Caldwell District currently pays all six of its full time employees 100 percent of a single Health insurance plan at \$819.30 and vision insurance for \$7.02 per month. Three employees receive dental insurance at \$23.79 per month The Commission continues to place greater

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<sup>24</sup> Case No. 2016-00163, *Alternative Rate Adjustment Filing of Marion County Water District* (Ky. PSC Aug. 11, 2016), Staff Report on Marion County Water District at 11–27.

emphasis on evaluating employees' total compensation packages, including both salary and benefits programs, for market and geographic competitiveness to ensure the development of a fair, just and reasonable rate. The Commission has found that, in most cases, 100 percent of employer-funded health care does not meet those criteria.<sup>25</sup>

Consistent with precedent in which the Commission has reduced benefit expenses for utilities that pay 100 percent of an employee's health insurance coverage, Commission Staff reduced Caldwell District's single health insurance premiums by 22 percent,<sup>26</sup> and dental insurance premiums by 40 percent<sup>27</sup> as shown in the calculation below. Accordingly, Commission Staff decreased Employee Pensions and Benefits by a net of \$24,826.

Type of Premium	Employer Contributions	Average Employee Contribution Rate	Monthly Premium Adjustment	Pro Forma Monthly Premium
Single Health Insurance	\$ 4,916	22%	\$ (1,081)	\$ 3,835
Dental and Vision Insurance	113	40%	(45)	68
Total Pro Forma Monthly Premium				3,903
Times: 12 Months				<u>12</u>
Total Annual Pro Forma Premium				46,836
Less: Test Year				<u>(71,662)</u>
Employee Pension and Benefits Adjustment				<u>\$ (24,826)</u>

<sup>25</sup> Case No. 2020-00167, *Electronic Application of Ohio County Water District for an Alternative Rate Adjustment* (Ky. PSC Dec. 3, 2020). Case No. 2020-00296, *Electronic Application of Allen County Water District for an Alternative Rate Adjustment* (Ky. PSC Feb. 3, 2021).

<sup>26</sup> Bureau of Labor Statistics, Healthcare Benefits, March 2020, Table 3, private industry workers. (<https://www.bls.gov/news.release/pdf/ebs2.pdf>).

<sup>27</sup> Case No. 2019-00268, *Application of Knott County Water and Sewer District for an Alternative Rate Adjustment* (Ky. PSC Mar. 24, 2020). Case No. 2020-00167, *Electronic Application of Ohio County Water District for an Alternative Rate Adjustment* (Ky. PSC Mar. 5, 2021). Case No. 2020-00296, *Electronic Application of Allen County Water District for an Alternative Rate Adjustment* (Ky. PSC Feb. 3, 2021).

(H) Purchased Water. In its test year, Caldwell District proposed an adjustment to increase purchased water expense by \$9,251.<sup>28</sup> During the test year, Caldwell District filed and was approved for an increase due to a purchase water adjustment in Case No. 2020-00225.<sup>29</sup> In order to annualize increase in the purchased water cost, Commission Staff calculated a purchased water expense using the new rate. This results in a purchased water expense of \$344,801. Therefore, Commission Staff increased purchased water expense by \$9,653 in order to reconcile the test year amount with the reported purchased amount as shown below.

Period	Princeton Water & Wastewater			South Hopkins Water District			Total
	Gallons Purchased	Dollars per Gallon	Sub-Total	Gallons Purchased	Dollars per Gallon	Sub-Total	
Jan-2020	8,486,082	\$0.00326	\$27,682	52,367	\$0.00316	\$165	\$27,847
Feb-2020	8,179,597	0.00326	26,682	55,317	0.00316	175	26,857
Mar-2020	8,761,425	0.00326	28,580	61,885	0.00316	196	28,775
Apr-2020	9,375,166	0.00326	30,582	75,753	0.00316	239	30,821
May-2020	9,909,203	0.00326	32,324	68,119	0.00316	215	32,539
Jun-2020	9,820,953	0.00326	32,036	93,014	0.00316	294	32,330
Jul-2020	8,967,488	0.00326	29,252	83,767	0.00316	265	29,517
Aug-2020	8,865,805	0.00326	28,920	94,151	0.00316	298	29,218
Sep-2020	8,001,831	0.00326	26,102	69,054	0.00316	218	26,320
Oct-2020	7,982,081	0.00326	26,038	81,217	0.00316	257	26,294
Nov-2020	7,984,394	0.00326	26,045	64,338	0.00316	203	26,248
Dec-2020	8,538,697	0.00326	27,853	57,449	0.00316	182	28,035
Total Purchased Water Expense							344,801
Less: Test Year Purchased Water							<u>(335,148)</u>
Pro Forma Purchsed Water Adjustment							<u>\$ 9,653</u>

(I) Taxes other than Income- FICA. In its application, Caldwell District reported account #603.1- Payroll Tax Expense as \$16,347<sup>30</sup> and included it in Miscellaneous

<sup>28</sup> Application, ARF-SAO.pdf, adjustment 3.

<sup>29</sup> Case 2020-00225, *Electronic Purchased Water Adjustment Filing of Caldwell County Water District*, (KY. PSC Jul 29, 2020).

<sup>30</sup> Caldwell District's Response to Commission Staff's First Request, (filed Jan 28, 2022), Item 1a, 2020 Trial Balance.

Expense. However, as explained in adjustment (E) above, Commission Staff increased Salaries and Wages Expense by \$80,796. Commission Staff calculated an increase to Taxes Other Than Income of \$6,195 as shown below. Therefore, Commission Staff reduced Miscellaneous Expense by \$16,347 and increased taxes other than income by a net of \$22,542<sup>31</sup>

<u>Taxes other than Income- FICA</u>	
Pro Forma Wage Adjustment	\$ 80,976
Times: 7.65 Percent FICA Rate	<u>7.65%</u>
FICA Adjustment	<u>\$ 6,195</u>

(J) Depreciation Expense. In its application, Caldwell District reported its test year Depreciation Expense of \$234,537.<sup>32</sup> To evaluate the reasonableness of the depreciation practices of small water utilities, the Commission has historically relied upon the report published in 1979 by the National Association of Regulatory Utility Commissioners (NARUC) titled Depreciation Practices for Small Water Utilities (NARUC Study). When no evidence exists to support a specific life that is outside the NARUC ranges, the Commission has historically used the midpoint of the NARUC ranges to depreciate the utility plant. Upon examination, Commission Staff found several assets not depreciated at the NARUC ranges midpoints. In this proceeding, Commission Staff found no evidence to support depreciable lives that vary significantly from the midpoint of the NARUC ranges. After further review of Caldwell District’s plant ledger, Commission

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<sup>31</sup> \$16,347 + \$6,195 = \$22,542.

<sup>32</sup> Application, ARF-SAO.pdf

Staff increased Caldwell District's Depreciation Expense by \$37,901 to \$272,438 as shown below.

<u>Asset Group</u>	<u>Test Year Depreciation</u>	<u>Depreciation Adjustment</u>	<u>Pro Forma Depreciation</u>
Group: 1500.01 Land	-	-	-
Group: 1500.02 T&D Mains	\$ 168,406	\$ 34,072	\$ 202,478
Group: 1500.03 Meters & Install	8,528	1,452	9,980
Group: 1500.04 Office Furn & Fix	1,580	(854)	726
Group: 1500.05 Comm Equip	276	-	276
Group: 1500.06 Vehicles & Equip	25,061	(1,644)	23,417
Group: 1500.07 Hydrants	1,385	277	1,662
Group: 1500.08 Utility Plant	110	7	117
Group: 1500.09 Power Oper Equip	-	-	-
Group: 1500.10 Structure & Imp	7,837	812	8,649
Group: 1500.11 Distr & Res	8,011	2,670	10,682
Group: 1500.12 Water Treat Equip	3,524	961	4,485
Group: 1500.13 Shop & Gar Equi	1,151	147	1,298
Group: 1500.14 Pumping Equipment	8,669	-	8,669
Total:	<u>\$ 234,537</u>	<u>\$ 37,901</u>	<u>\$ 272,438</u>

### OVERALL REVENUE REQUIREMENT AND REQUIRED REVENUE INCREASE

The Commission has historically applied a Debt Service Coverage (DSC) method to calculate the Overall Revenue Requirement of water districts and water associations. This method allows for recovery of (1) cash-related pro forma operating expenses; (2) recovery of depreciation expense, a non-cash item, to provide working capital;<sup>33</sup> (3) the

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<sup>33</sup> The Kentucky Supreme Court has held that the Commission must permit a water district to recover its depreciation expense through its rates for service to provide internal funds for renewing and replacing assets. See *Public Serv. Comm'n of Kentucky v. Dewitt Water Dist.*, 720 S.W.2d 725, 728 (Ky. 1986). Although a water district's lenders require that a small portion of the depreciation funds be deposited annually into a debt reserve/depreciation fund until the account's balance accumulates to a required threshold, neither the Commission nor the Court requires that revenues collected for depreciation be accounted for separately from the water district's general funds or that depreciation funds be used only for asset renewal and replacement. The Commission has recognized that the working capital provided through recovery of depreciation expense may be used for purposes other than renewal and replacement of assets. See Case No. 2012-00309, *Application of Southern Water and Sewer District for an Adjustment in Rates Pursuant to the Alternative Rate Filing Procedure for Small Utilities* (Ky. PSC Dec. 21, 2012).

average annual principal and interest payments on all long-term debts; and (4) working capital that is in addition to depreciation expense.

	Caldwell County Water District	Staff	
Pro Forma Operating Expenses	\$ 1,197,596	\$ 1,322,677	
Plus: Avg. Annual Principal and Interest Payments	219,723	203,532	(1)
Additional Working Capital	43,945	40,706	(2)
 Total Revenues Requirement	 1,461,264	 1,566,915	
Less: Other Operating Revenue	(11,584)	(28,115)	
Interest Income	(1,188)	(1,188)	
 Revenue Required From Water Sales	 1,448,492	 \$ 1,537,612	
Revenue from Sales at Present Rates	(1,331,398)	\$ (1,322,578)	
 Required Revenue Increase	 117,094	 215,034	
Percentage Increase	8.79%	16.26%	

1. Average Annual Principal and Interest Payments. At the time of Commission Staff's review, Caldwell District had two outstanding Bonds from the United States Department of Agriculture (USDA),<sup>34</sup> and one lease with the Kentucky Association of Counties Finance Corporation (KAoCFC).<sup>35</sup> In its application, Caldwell District requested recovery of the average annual principal and interest on its indebtedness based on a three-year average of the annual principal, and interest and fee payments for the years 2022 through 2026.<sup>36</sup> Commission Staff disagrees with the methodology Caldwell District proposes and calculated a different amount using a five-year average of

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<sup>34</sup> Case 2019-00311, *Application of Caldwell County Water District for Approval to Enter into a Lease Agreement with the Kentucky Association of Counties Leasing Trust for an Approximate Principal Amount of \$1,710,000 for the Purpose of Refinancing Outstanding Obligations*, (Ky. PSC Oct 30, 2019). Case 1999-00154, *In the Matter of the Application of Caldwell County Water District of Caldwell County, Kentucky, for a Certificate of Public Convenience and Necessity to Construct, Finance and Increase Rates Pursuant to KRS 278.023* (Ky. PSC May 14, 1999)

<sup>35</sup>Case 2004-00149, *Pipeline and Appurtenances*, (Ky. PSC May 26, 2004).

<sup>36</sup> Application, ARF-Revenue Requirements.pdf.

the annual principal, and interest and fee payments for the years 2022 through 2026. As shown below, Commission Staff calculated an Average Principal and Interest.

2022-2026 Five-Year Average of Debt Payments							
Year	KACoFC 2019E		USDA RD 1999		USDA RD 2005		Total
	Principal	Interest	Principal	Interest	Principal	Interest	
2022	\$70,000	\$63,715	\$21,000	\$16,201	\$12,000	\$19,573	\$ 202,489
2023	75,000	60,090	21,500	15,518	12,500	19,078	203,686
2024	80,000	56,215	22,000	14,820	13,000	18,562	204,597
2025	85,000	52,090	23,000	14,105	13,500	18,026	205,721
2026	85,000	47,840	23,500	13,357	14,000	17,469	201,166
Totals	395,000	279,950	111,000	74,001	65,000	92,708	1,017,659

  

Divide by: 5 years	<u>5</u>
Average Annual Interest Payment	<u><u>203,532</u></u>

2. Additional Working Capital. The DSC method, as historically applied by the Commission, includes an allowance for additional working capital that is equal to the minimum net revenues required by a district's lenders that are above its average annual debt payments. In its application, Caldwell District requested recovery of an allowance for working capital that is equal to 120 percent of its average annual debt payments for its loan payable to KIA at the time of its application.

USDA/RD requires that Caldwell District charge rates that produce net revenues that are at least 120 percent of its average annual debt payments. Following the Commission's historic practice, Commission Staff agrees with Caldwell District's revised methodology. Therefore, \$40,706 is included it in the revenue requirement.

Average Annual Principal and Interest	\$ 203,532
Times: DSC Coverage Ratio	<u>120%</u>
Total Net Revenues Required	244,238
Less: Average Annual Principal and Interest Payments	<u>(203,532)</u>
Additional Working Capital	<u><u>\$ 40,706</u></u>

Signatures

/s/ William Foley

Prepared by: William Foley  
Revenue Requirement Branch  
Division of Financial Analysis

/s/ Jason Green

Prepared by: Jason Green  
Rate Design Branch  
Division of Financial Analysis

/s/ Sarah Jankowski

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Rate Design Branch  
Division of Financial Analysis

APPENDIX

APPENDIX TO A STAFF REPORT OF THE KENTUCKY PUBLIC SERVICE  
COMMISSION IN CASE NO. 2021-00423 DATED MAR 18 2022

The following rates and charges are prescribed for the customers in the area served by Caldwell County Water District. All other rates and charges not specifically mentioned herein shall remain the same as those in effect under the authority of the Commission prior to the effective date of this Order.

Monthly Water Rates

First 1,000 Gallons	\$29.57 Minimum Bill
Next 3,000 Gallons	0.01547 Per Gallon
Next 6,000 Gallons	0.01264 Per Gallon
Next 20,000 Gallons	0.00982 Per Gallon
Over 30,000 Gallons	0.00863 Per Gallon

Nonrecurring Charges

Field Collection Charge	\$20.00
Connection/Turn-on Charge	\$20.00
Meter Re-read Charge	\$20.00
Meter Read Charge	\$20.00
Service Call/Investigation	\$20.00
Re-Connection Charge	\$20.00

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